

Comment Letter to The Federal Reserve Bank on proposed new rules for the Community Reinvestment Act

Docket Number R-1723 and RIN Number 7100-AF94

To Whom it May Concern:

I am writing on behalf of Community Advocates and our Public Policy Institute, located in Milwaukee, Wisconsin. Community Advocates helps thousands of individuals every year with issues related to housing, homelessness and other needs. The Public Policy Institute works to address the root causes of the problems that bring people through our doors every day.

Access to quality and affordable housing is one of the most significant needs across the city of Milwaukee. Building wealth and assets through buying a home has become less and less viable for many Milwaukee residents, especially individuals who are African American, Latinx, or Asian and African immigrants. Providing access to capital for entrepreneurs from disadvantaged communities is necessary for significant economic progress.

The Community Reinvestment Act was originally passed in 1977 to address longstanding discrimination in mortgage, community development and small business lending. While progress has been made, Milwaukee continues to see the effects of discriminatory lending practices. The CRA is critical to overcoming this legacy. Recent changes weakened it. The proposed ANPR represents an opportunity to strengthen the CRA and its potential positive impact.

The Federal Reserve Board (Fed) must strengthen CRA exams in order to promote recovery from the COVID-19 pandemic. The Fed has described approaches in its Advance Notice of Proposed Rulemaking (ANPR) on CRA that will make CRA exams more objective. Yet, questions remain about whether the Fed's approach will make grading tougher. If nearly every bank continues to pass their CRA exams, banks will not engage in

serious efforts to help communities of color and low- and moderate-income (LMI) neighborhoods recover from the pandemic.

CRA must be strengthened in order to combat discrimination. The Fed emphasizes improving the performance measures on CRA exams including those used on the lending test that compare a bank's percent of loans to LMI borrowers to other lenders. The Fed does not describe in detail the impact of its reforms on CRA ratings except to hint that banks may continue to receive the same grades.

Moreover, the Fed is proposing to reduce the number of ratings on a state level and on subtests from five to four. This proposal would result in fewer distinctions in performance whereas new CRA exams must reveal more distinctions in order to motivate banks to be more responsive to COVID-19 recovery needs. Five ratings must be retained on the state level and on subtests.

The Fed asks whether underserved areas should be designated based on high levels of poverty or low levels of retail lending. NCRC advocated an approach based on low levels of lending which would effectively target redlined neighborhoods and communities of color.

We also ask the Fed to consider explicitly including race on CRA exams. The agencies have hesitated to do so but we believe that the CRA statute allows this since the law emphasizes banks meeting credit needs in all communities, but particularly underserved ones. CRA exams could include performance measures assessing lending, investing, branching and services to people of color and communities of color. The Fed could also provide CRA consideration for lending and investing in majority minority census tracts outside of assessment areas just as the Fed is considering for Indian reservations and other underserved areas.

In the interest of reaching underserved areas, we strongly support the Fed's proposals to improve data collection including community

development financing data, which would better enable stakeholders to determine communities most in need.

We support the Fed's proposals to expand assessment areas, which are geographical areas on CRA exams. In addition to areas around branches, assessment areas must also include areas outside of branches with significant amounts of bank lending or deposit taking.

We do not support expanding financial education to any income since LMI consumers and people of color are most likely to be unbanked as revealed by surveys of the Federal Deposit Insurance Corporation (FDIC). Likewise, the Fed should further develop its procedures for awarding CRA credit for financing affordable housing that is unsubsidized so that such financing actually serves LMI residents.

Finally, we applaud the Fed proposal to eliminate distinctions in the rigor of examination among assessment areas that have resulted in banks neglecting smaller cities, rural counties and Native American reservations.

We appreciate the direction the Fed has embarked upon but caution that it must not end up with proposals that replicate existing CRA ratings inflation as this will not help our communities devastated by COVID-19.